Management and Performance of the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program

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Testimony of
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Management and Performance of the Federal Family Education Loan Program (FFELP) and the William D. Ford Federal Direct Loan Program (FDLP)

Good morning, Chairman Tom Davis and members of the House Committee on Government Reform. On behalf of Dillard University, its faculty, staff and students, I thank the members of the House Committee on Government Reform for the opportunity to provide testimony this morning on the management and performance of the Federal Family Education Loan Program (FFELP) and the William D. Ford Federal Direct Loan Program (FDLP).

Introduction

I appreciate the opportunity to discuss the history of Dillard University's participation in both the FDLP and the FFELP programs. I will also comment on which services are most helpful to Dillard University and its students, and the quality of service provided by the Department of Education and other student loan entities. Additionally, I will share my views on why Dillard University transitioned from the FDLP to the FFELP. I would also like to take this opportunity to express my opposition to proposed House Bill 1425, the Student Aid Reward Act of 2005 (STAR Act).

Dillard University is a Historically Black University located in New Orleans, LA. Founded in 1862, it has educated African American students for more than 132 years. For the 2004-2005 school year, more than 2,000 students utilized the FFELP to fund their education. Our student loan volume represents $18 million or 60% of the total $32 million dollars awarded annually in financial aid. As a participant in both programs, we are uniquely qualified to speak about the services of both programs and to discuss which services are most helpful to Dillard

University and our students. It is my desire that at the conclusion of this testimony, you would continue your support of the FFELP and oppose the STAR Act.

Background

The Federally "Guaranteed Student Loan Program" was first authorized in Part B of the Title IV Higher Education Act of 1965 (HEA). The HEA of 1992 (P.L. 102-325) renamed the program the Federal Family Education Loan Program, consisting of Stafford Loans for Students and PLUS Loans for parents. The Student Loan Reform Act of 1993 authorized the Federal Direct Loan Program. The loans offered under these two programs have the same eligibility rules and the same annual and aggregate maximum loan amounts.

The primary difference between the FDLP and FFELP is the source of funds for the borrowers. The federal government provides funds for the FDLP. The FFELP is funded by private lenders, insured by guaranty agencies and reinsured by the federal government ([RPGUSDE], 2003, p. 1 Vol. 8).

Dillard University's participation in the FFELP & FDLP

Prior to 1995, Dillard University participated in the FFELP. Historically Black Colleges and Universities (HBCUs) were strongly encouraged to participate in the Federal Direct Loan Program at the request of the Department of Education. In return, all Direct Loan participants were promised a more streamlined loan application process. Schools were also told they would receive $5 per loan originated as an incentive to help defray administrative costs of the program. At the time, the payments were called Payment of Origination Services (POS). Unfortunately, the payments ended in December of 1996.

In addition to the seamless application process and the POS, the FDLP seemed attractive because students could take advantage of in-school loan consolidations. With interest rates currently as low as 2.77 percent, the ability to consolidate a student loan while enrolled in school could save students hundreds of dollars during repayment. Until this year, this option was only made available to the FFELP participants.

Dillard University entered the FDLP in 1996, after the program was two years old. Initially, it appeared that loans were being delivered in a timelier manner. However, in 1997, the FDLP transitioned its loan origination services from Computer Data Systems to Electronic Data Systems. The transition was difficult on the Department of Education and the schools involved. During this transition, student loans services were interrupted for four to five weeks which created a financial crisis for the school and loan recipients awaiting funds to meet fiscal obligations. For example, the Department of Education's transition problems delayed students from receiving their loans and paying their outstanding balances to the school. For seniors in particular, the process affected meeting graduation requirements and the release of transcripts. After evaluating the challenges the students and the administration were experiencing with the FDLP, Dillard University made the decision to return to the FFELP program.

Dillard's return to the FFELP was a slow process. I believe if one would ask the Financial Aid Office at FDLP schools what is the one element they dislike about the Direct Loan Program, I am sure the overwhelming response would be the reconciliation. In addition to the arduous task of administering the FDLP, reconciling the FDLP was an additional responsibility not required by the FFELP. I recall many difficulties trying to reconcile and close out the program simply because records were lost at the Direct Loan servicer. Even after providing the agencies copies of cancelled checks, it was difficult to bring closure to discrepancies.

We officially closed out our loans with the FDLP at the conclusion of the 2003-2004 school years. Our support to the FDLP has totaled more than $10 million dollars since 1996 as illustrated on the following chart:

	DILLARD UNIVERSITY		
Academic Year	Borrower Count	orig. loan amt.	School Refund Amount
1996	460	$ 1,702,416	$ 35,593
1997	792	$ 3,245,536	$ 81,561
1998	255	$ 1,341,613	$ 43,294
1999	231	$ 1,714,588	$ 15,252
2000	183	$ 1,309,383	$ 53,930
2001	68	$ 515,298	$ 17,999
2002	42	$ 257,501	$ 24,853
2003	24	$ 168,932	$ -
2004	16	$ 107,697	$ -
	2,071	$ 10,362,964	$ 272,482
	Total Adj. Oring. Loan Amount:		**$ 10,090,482**
Note: There are only 1,046 unique borrowers at Dillard University			

The Decision to Return to FFELP

Since 1998, more than 500 schools have left the Direct Loan program. Private schools like Dillard University are choosing the FFELP because its lenders offer superior technology and a comprehensive loan program that covers the costs beyond the federal loan limits and services that make the student loan process easier for students and aid administrators. Private lenders have the ability to customize loans and services to meet the needs of students and schools. Dillard University returned to the FFELP out of necessity. We needed a better process that would support the students' needs, our institution's service expectations for students and cash flow goals. More importantly, we wanted to associate with agencies that would compliment and enhance the services already provided.

At private institutions, the average tuition cost is $20,082 (Board, Page 5, Figure 2). The current annual loan limits do not cover Dillard University's annual tuition cost of $11,760 (2005-2006). Private loans offered by private lenders are on the rise nationwide. The Department of Education does not offer a Private Loan Program. Had we continued in the FDLP, many students would have had to participate in both the FDLP and Private Loan Program to meet their educational costs. This is another reason why Dillard University chose to return to the FFELP. Consolidated repayment options are available for our students who have FFELP and additional private loans. The private lenders are working with students and parents to ensure student loan repayments are affordable.

I believe that most HBCUs and other schools will agree that budgets are tight and resources are scarce. Private lenders are able to offer services that the federal government simply cannot offer with the FDLP. Although we made the decision to leave the Direct Loan Program, we continued to participate in both. The Direct Loan Program offered attractive consolidation options that until recently were not available through private lenders.

In 2004-2005, we did not originate any Direct Loans. Instead, we decided to reduce our preferred lender list to four private lenders. These lenders consolidate their services under one umbrella with one of the nation's largest private student lending agency. Each lender provides additional services beyond disbursement of the student loan. These partnerships have enabled us to provide better services to our students and families.

Benefits of the FFELP Program vs. FDLP

The one fact that most institutions agree upon is the benefit of competition. The creation of the Direct Loan Program created healthy competition that has streamlined the student loan application process and lowered default rates. Having participated in both student loan programs, in my opinion, the benefits of FFELP outweigh those in FDLP. Further, I believe that schools should have a choice in establishing partnerships with external agencies that can help deliver a simplified and efficient student aid program.

Proponents of Direct Loans argue that they offer a single point of service. With the FFELP, schools have a choice of a single point of service when they choose a lending partner. The National Direct Student Loan Coalition (NDSLC) believes that the return of funds is more streamlined by using the FDLP. However, with the FFELP, schools have a choice of a single point of service when they choose a lending partner. Further, the use of the Internet has made return of student loan proceeds easier and more efficient for FFELP schools as well. Dillard University is able to return loan proceeds with ease using the Internet.

The NDSLC reports that the cost for the American taxpayer is $10.51 per $100 for the FFELP program compared to $.69 per $100 for the Direct Loan Program (The National Direct Loan Student Loan Coalition [NDLSLC], n.d.). But, there is more to be considered.

There is an old cliché that states, “You get what you pay for.” The one benefit that the federal government has not been able to provide to schools is “value-added services.” Value-added services extend beyond the disbursement of the student loan. They include, but are not limited to assistance with entrance and exit loan counseling, staff training and development and technological support. Private lenders are now offering “value-added services” at no cost to institutions. While it may appear that these private companies are receiving huge subsidies from the federal government, the fact of the matter is that a portion of the subsidies is returned to the schools through value-added services. According to the lenders, the profit margin for banks is not as high as in the past, considering the current low interest rates of 2.77% on student loans.

Because lenders return a portion of their subsidies to the higher education community, schools are in a better position to improve services for students. Value-added services are especially important to schools when resources are limited and costs continue to rise. Examples of value-added services offered include, but are not limited to the following:

1. United Student Aid Funds, one of the nation's leading education loan guarantors, offers schools an excellent program titled Life Skills. Life Skills is a cutting-edge program designed to help students better manage their finances and complete their degree program on time. It is an excellent resource for students and schools. Schools are able to help students improve academic performance and budgeting skills, find scholarships and enter repayment with confidence and success. Schools are offered free training and materials to issue to students.

2. United Student Aid Funds also assists schools with default management. Recently, Dillard University was notified that our preliminary Cohort Default rate is 4%. By utilizing USA Funds' Default Management System software, we expect even lower default rates. Not only is the software provided, but training and technical support are provided as well. The default prevention resources and other services are offered at no cost to schools.

3. Private lenders assist schools with entrance and exit student loan counseling, a federal requirement for all student loan borrowers. The federal government does not have the resources to send representatives to schools to share such valuable information with students about the repayment obligations of student loans. Without such assistance from private lenders, schools would be required to perform this task.

4. Private lenders offer both campus-based and web-based training opportunities to schools at no cost. This value-added service is, again, important to schools with limited resources. Oftentimes, we are not able to send staff to conferences and workshops. Having

training opportunities brought directly to the campus saves taxpayers millions of dollars. Imagine how much it would cost the government if a school does not demonstrate that it can effectively administer the federal aid program. USA Funds offers a Speaker's Bureau for schools as an additional resource. Training is not only offered for the financial aid staff, but other campus constituencies.

5. Student persistence and retention have gained national attention in recent years. In fact, Congress is now considering rewarding schools that have high graduation rates and retention rates. Dillard University, in partnership with USA Funds, is able to manage and improve its retention rates using Noel Levitz's Retention Management System. In addition, an annual symposium provides an opportunity for minority-serving institutions to share ideas and concerns about retention. This service is not offered through government lending.

6. Private lenders offer schools assistance with technology. At Dillard University, we were able to improve our web-based delivery system by taking advantage of Sallie Mae's Campus Gateway system. Campus Gateway gives us the ability to deliver financial aid services more efficiently. Our students are now able to go to the web and complete every aspect of their financial aid and tuition payment requirements in one convenient location.

7. Private lenders offer tuition payment plans. This service is not available through government lending. Dillard University elected to partner with a private lender who offered a holistic approach to servicing our students. After financial aid is awarded, this interest free service provides a means for students to meet costs by making payments on their tuition balances. Our students can also pay their tuition via the web because of an additional value-added service.

8. Private lenders support state associations through corporate sponsorship. In the state of Louisiana, private contributions through corporate sponsorship enable our state association to offer a comprehensive conference to meet the needs of the membership. Corporate sponsorship allows participation by more schools lowers membership fees and lowers conference costs paid by schools. Currently, we are able to participate at a membership fee as low as $30. At conferences, private lenders supply schools with much needed office supplies such as pens, notepads, pencils, etc. These giveaways (tokens) might seem small. However, the cost reductions are a great benefit for schools with limited resources.

9. Private lenders offer schools assistance with printing pamphlets, brochures, flyers and forms. With each Reauthorization of Higher Education, the list of consumer information requirements demanded by the federal government gets more expansive. Through the assistance of private lenders, printing costs to schools are minimized.

Opposition to The STAR Act

A group of senators has proposed legislation (H.R. 1425) known as the STAR Act. "The primary purpose of the bill is to ensure that the federal student loans are delivered as efficiently as possible so that there is more grant aid for students (109th Congress, 1st Session H.R. 1425)." According to one report, this program would provide additional funds to students at no cost to taxpayers (Patterson 2005). One of the provisions of the STAR Act is to provide an additional $1,000 for students who attend institutions that participate in the Federal Direct Loan Program (Patterson). We believe this is unfair to the millions of low-income students who have elected to attend schools that use private lenders.

Which student loan program produces the greatest benefit for the greatest number of people? On the one hand, The FDLP eliminates the cost subsidies paid to private lenders, but shifts a $1,000 per student cost to the Federal Pell Grant Program under the provisions of the STAR Act. Nearly six million students receive more than $12 billion in Federal Pell Grant Funds each year with awards ranging from $400 to $4,050. The potential impact of this legislation represents a shift from one program to the other. On the other hand, subsidies received by private lenders are returned to the institutions in the form of value-added service. When the schools receive value-added services, these services benefit schools, students and families and communities. The government-contracted servicers of student loans are for-profit and offer nothing in return to the student, the school or the community. On the other hand, many private lenders return a huge investment to higher education by providing community outreach and scholarships. For instance, the Sallie Mae Fund, a charitable organization sponsored by Sallie Mae, achieves its mission of increasing access to higher education for America's students by supporting programs and initiatives that help open doors to higher education and increasing access to higher education. This organization has donated more than $12 million to educational programs, scholarships and community service. Additionally, private lenders offer scholarships for students.

The National Association of Student Aid Administrators (NASFAA) represents more than 3,000 schools. Preliminary investigation of the STAR Act by NASFAA's Task Force on Reauthorization indicates that the organization is not in support of this bill. It is the Task Force's opinion that the STAR Act does not comply with its first principle for decision making, which is to "**promote fairness and equity for students across all sectors of post secondary education** (NASFAA 2005)." Students should be able to receive the same benefits regardless of the school they choose to attend. The standards of equity and access would have to be questioned when students are rewarded for participating in the FDLP vs. the FFELP program.

The Committee on Government Reform should oppose the STAR Act and consider the opinion of the financial aid community that is charged with annually administering billions of dollars. It is difficult for financial aid administrators to explain inequities in financial aid awards from school to school driven by the decision to participate or not participate in a particular aid program. Because of the STAR Act, I believe we would be inundated with calls and complaints from parents and students. Imagine the parent of two children who attend different schools, one a direct loan participant and one a private loan participant. It would be difficult to justify to a parent that his or her son or daughter received an extra $1,000 in Federal Pell Grant funds because the school chose to participate in one loan program versus the other.

The STAR Act would impose additional expenditures to the Federal Pell Grant Program. The major incentive for participating in the FDLP is the $1,000 increase to the Federal Pell Grant. However, recent controversies surrounding the Federal Pell Grant formula and funding make this tenuous at best. In December of 2004, changes were made to the state formula for calculating Federal Pell Grant awards designed to save $300 million. Reports indicated that 84,000 students were expected to loose their grants completely and millions more would see a reduction in their Federal Pell Grant Award. It is my opinion that public outcry contributed to President Bush's proposed legislation that would increase the Federal Pell Grant by $100 per year over five years. The proposed change would substantially increase Federal Pell Grant spending by $400 million dollars (Committee for a Democratic Majority 2005).

The value of the Federal Pell Grant has not increased in at least three years. Yet, the total Federal Pell Grant funding has grown from $9.17 billion in fiscal year 2001 to $12.37 billion in fiscal year 2005 due to the increase in applicants. If a $100 increase to the award would cost the government $400 million, how would the proposed $1,000 increase impact the federal budget?

Based on recent Federal Pell Grant Program budget debates, Committee Members, I urge you to oppose the STAR Act. The goal of President Bush's FY 2005 Budget was to reduce spending. Proponents of the STAR Act believe that it will save the government billions of dollars. I am no economist, but I do believe that this may be misleading. If one saves a dollar in the Federal Direct Loan Program and spends a dollar in the Federal Pell Grant Program, has the Government really saved? Furthermore, students always appreciate more grants than loans. Unfortunately, the STAR Act does not promise a $1,000 grant to all eligible students. Equity is lost.

Conclusion

I have worked in the higher education industry for 19 years. All of my experience has been at minority serving institutions. Each of the institutions has suffered from budget cuts and scarce resources. For this reason, I urge your support for private lending and ask that you oppose the STAR Act. Dillard University and other institutions that choose to participate in the FFELP prefer flexibility and the value-added services this program offers.

Today, private lenders offer loan programs that are seamless for students, parents, lenders, guarantors and the financial aid staff. Reconciliation in the FFELP program is much easier than reconciliation in the FDLP. National student loan default rates are lower than ever before because competition between the programs prompted programmatic changes and lenders are offering more assistance to schools to reduce loan defaults. Families are able to take advantage of affordable tuition payment plans offered by private lenders. Additionally, private lenders are offering services to assist schools with improving retention and graduation rates. The return of a portion of their subsidies in the form of scholarships and other value-added services improves the access and equality to higher education for many families.

I am a taxpayer, a higher education administrator, and a parent of future college students. Based on my experience, I would disagree with the notion that the FFELP is costing taxpayers millions of dollars. I believe that private lenders actually save money for taxpayers, federal and state governments.

Each year, approximately 10 million students and their families rely on federal aid to pay for college. As the cost of education continues to rise, more and more schools will continue to rely on the assistance of private lenders to help subsidize the costs associated with higher education. Contributions from private lenders through educational programs, scholarships, and community outreach will be even more important. Taxpayers pay more than $22 billion per year for higher education costs. Because the socioeconomic mix in higher education has barely changed in 40 years, most taxpayers support access to college in the interest of social justice and to improve the national level of economic performance. Congress is aware of the vital importance most citizens place on student aid funding. Please continue to give students, families and schools a choice in student lending that offers equality and access by opposing the STAR Act.

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